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The emergence of Latin multinationals

Javier Santiso

The corporate world has changed remarkably in the past 10 years. New multinationals are appearing in countries with emerging markets such as Brazil, India, China, South Africa and Mexico, which are not only top recipients of foreign capital, but have fast become major investors themselves. An important part of the remarkable story of emerging multinationals has been the eruption of world-class Latin multinationals (or *multilatinas*) from Mexico and Brazil, in particular, following the path taken by their Spanish counterparts in the 1990s. In all these cases, classical push and pull factors have been driving their emergence. But a decisive helping hand for these *multilatinas* over the past decade has been the declining cost of capital. This financial dimension is driving the leap from overseas sales to overseas acquisitions, a phenomenon that will be explored in this article.

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I

Introduction

The corporate world has changed remarkably in the past 10 years. New multinationals are emerging in countries such as Brazil, India, China, South Africa and Mexico and are rapidly altering the entire global corporate chessboard.

In some sectors, such as the steel and cement industries, the global leaders are no longer corporations from developed countries. For example, in 2006 an Indian group, Mittal, took control of European rival Arcelor to become the leader in the steel industry, while in the cement industry, Mexico's Cemex has caught up with industry giants Lafarge (France) and Holcim (Switzerland). The takeover of Canadian-based Inco in 2006 brought Brazilian mining conglomerate Companhia Vale do Rio Doce (CVRD), which was then rechristened as Vale, to the top of international rankings alongside Anglo-Australian companies BHP Billiton and Rio Tinto. In 2007 and 2008, the Indian group Tata snapped up jewels of the United Kingdom's steel and motor vehicle industries, while in Asia, conglomerates in the Republic of Korea such as Samsung and LG or Posco have grown into global heavy hitters, closely followed by next-generation Chinese firms such as Huawei and Lenovo.

Emerging countries are not only top recipients of foreign capital, but have fast become major investors themselves. As recipients, 2008 saw China and India rank first and second as global investment destinations, followed by the United States.¹ Latin America marked up over US\$ 100 billion of inward foreign direct investment (IFDI) for the first time in the continent's history, with Brazil and Mexico both performing very strongly (sixth and nineteenth, respectively). As investors, these same leading emerging economies are also witnessing a boom in outward FDI flows, which in some cases are surpassing incoming foreign capital flows.

FDI in emerging markets being undertaken by other emerging economies increased threefold between 1995 and 2003, climbing from US\$15 billion to over US\$ 45 billion. During the same period, investment by such enterprises in countries of the Organisation

for Economic Co-operation and Development (OECD) rose from US\$ 1 billion to US\$ 16 billion. In 2005, according to figures compiled by the United Nations Conference on Trade and Development (UNCTAD), FDI from emerging countries reached a record of US\$ 133 billion, representing 17% of the world's outward flows, the highest level ever recorded. By 2006, FDI—including mergers and acquisitions (M&A)—from developing economies had reached US\$ 174 billion (14% of the world's total), giving such countries a 13% share (worth US\$ 1.6 trillion) of the stock of global FDI. To place these numbers in context, in 1990 the emerging economies accounted for just 8% of stocks and 5% of flows.²

Emerging Asian players dominate in this regard (accounting for more than 60% of FDI stocks from emerging countries in 2005) but Latin America is also active. According to ECLAC, in 2007 Brazil's outward FDI reached nearly US\$ 7 billion and Mexico's amounted to almost US\$ 5 billion. In 2006, outward FDI (US\$ 28 billion) from Brazil surpassed inward FDI (US\$ 19 billion). In 2006, the outward FDI from Latin American multinationals reached a record of nearly US\$ 42 billion.³

A corollary of this trend has been the boom in South-South investment flows. After Asia, Latin America provides the next-largest stream of FDI from emerging markets, driven especially by Argentina, Brazil and Mexico. The number of companies from emerging economies in worldwide rankings is increasing along with their overseas investments: in 1990 only a happy few emerging multinationals from developing countries were listed in the Fortune 500 rankings; by 2005, their number had risen to 47.

An important part of the remarkable story of emerging multinationals has been the eruption of world-class Latin multinationals from Mexico, Brazil and especially Spain. Up to the mid-1970s, Spain was still officially considered an emerging developing country and was listed as such by the World Bank and the International Finance Corporation (IFC). Now, however, a cohort of *multilatinas* has arisen out of the

¹ See AT Kearney(2008a), New concerns in an uncertain world: the 2007 AT Kearney Foreign Direct Investment Confidence Index, AT Kearney.

² For an analysis of this trend, see Gammeltoft (2008).

³ For further details, see ECLAC (2008).

former backwaters of Spain and Latin America. These companies from Latin European and Latin American countries have undergone tremendous growth and internationalization.

This article explores the emergence of these new Latin multinationals. Although not an entirely new phenomenon (Latin companies have been a presence in global trade for centuries), today's *multilatinas* wield manufacturing and financial power that competes with the largest of the developed world's conglomerates. The expansion of Spanish companies, first within Europe and

then into Latin America, has been driven by different factors (European integration and the privatization/deregulation of Latin American service industries) than those currently behind the internationalization of Latin American firms (small home markets, natural-resource-market dynamics for exporters) or of their Asian counterparts. Nevertheless, the spectacular transformation of the *multilatinas* over the past quarter century has changed Latin countries and the world. We will assess the characteristics of this phenomenon by examining the cases of Spain, Brazil and Mexico.

II

The rise of emerging economies and Latin multinationals: stylized facts and a review of the literature

Today's shifting wealth of nations is seen most clearly in the spectacular rise of emerging-country multinationals. Their reach extends from manufacturing to corporate finance: in 2007, with a global rise in acquisitions of 6%, acquisitions by emerging multinationals jumped by more than 26%.⁴ According to AT Kearney (2008a), in 2007, 20% of the 2,200 majority acquisitions between developed and developing countries were driven by multinationals from emerging markets. The majority of this increase can be ascribed to China, India and Malaysia, which accounted for 56% of total acquisitions by emerging economies between 2002 and 2007.

The recent string of high-profile, cross-border mergers and acquisitions by Chinese or Indian companies illustrate this trend well. The Boston Consulting Group (BCG), in a study of the top 100 emerging multinationals (2006a and 2006b), identified 44 from China, followed by India (21), Brazil (11) and Mexico (6). Latin America, with a total of 18 companies on the list, comes behind Asia (70) but ahead of other regions (the 12 remaining companies are from a broad swath of countries such as Egypt, the Russian Federation, South Africa or Turkey).

Energy needs and domestic competition have been key drivers of India's and China's overseas expansion (see figure 1). In the case of China, the ambition to

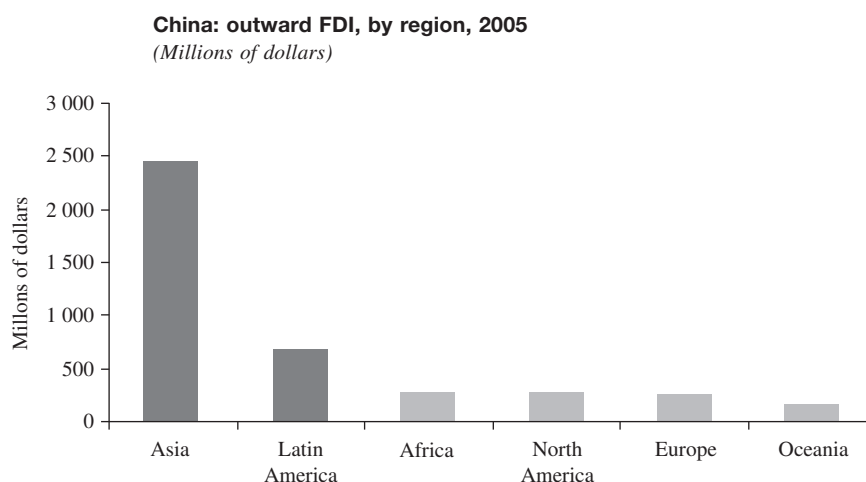
create national champions has acted as an accelerator. As stressed by Deutsche Bank Research (2006), Chinese global champions are in the making, with the flow of overseas investments from these companies increasing year after year. According to BCG (2006a), since 1986 Chinese firms have carried out more than 220 transactions as part of their overseas expansion drive, with a total value of about US\$ 18 billion.⁵ Latin America is benefiting from China's expansion: in 2005 the region was the second-largest recipient of Chinese FDI, after Asia (the year before, it was ahead of Asia).

The case of India is just as spectacular (see figures 2 and 3 and table 1). Some Indian companies have already oriented themselves heavily towards overseas markets. Indian software groups such as Infosys, Tata Consultancy Services (TCS) and Wipro already generate 98%, 90% and 80% of their revenues, respectively, in markets outside India. The interest in Latin America is also strong as some of these companies are setting up development centres in time zones close to their major markets, to service Latin America and especially the United States. Indian companies are also investing heavily abroad (TCS, for example, has 1,100 employees in Brazil and 250 in Uruguay). Latin America attracts a substantial portion of Indian FDI, primarily in commodity-related sectors

⁴ See AT Kearney (2008b).

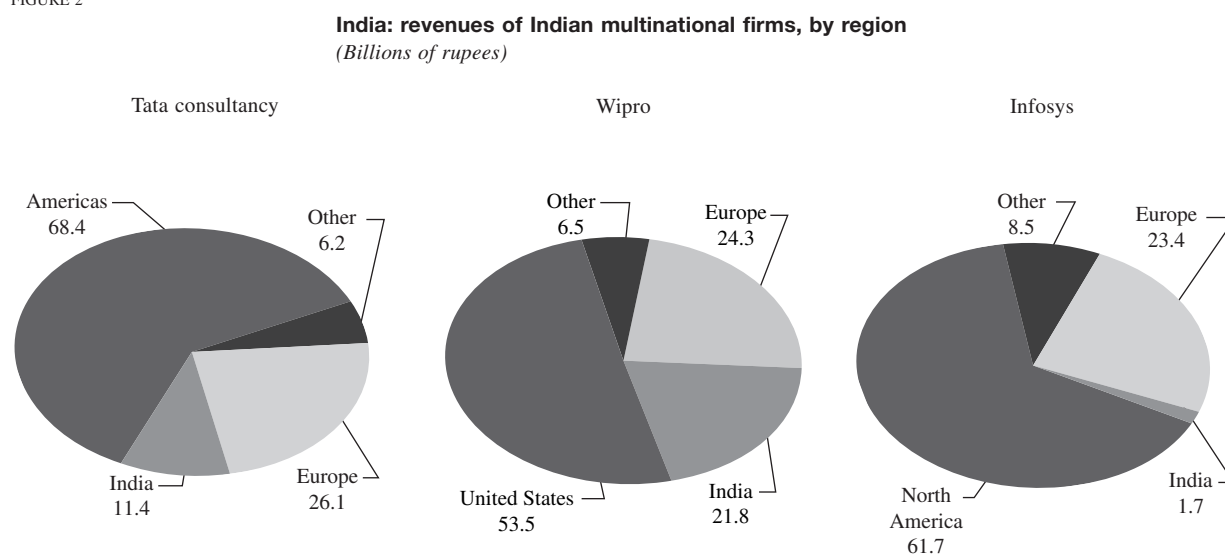
⁵ See Boston Consulting Group, May 2006a.

FIGURE 1



Source: prepared by the author on the basis of Chinese official data, 2006.

FIGURE 2



Source: prepared by the author on the basis of corporate annual reports, 2006.

such as oil, minerals and gas, with Brazil, Colombia and Bolivia being major recipients.

The significant increase in the scope of Latin multinationals' activities is reflected in global rankings such as the *Forbes* list of top 2,000 global enterprises, which includes about 30 Spanish multinationals and about 20 from Mexico and Brazil (see figure 4).

Behind the emergence of Latin American multinationals lie push and pull factors not unlike those analysed in the traditional literature on corporate internationalization. The majority of studies in the past

decade have built upon prior literature on the rise of multinationals from the developing world, from 1980s onwards.

TABLE 1

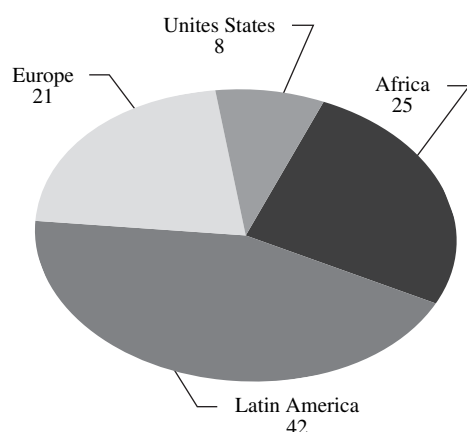
India: boom in outward FDI, 2006
(Millions of dollars)

Corus	United Kingdom/New Zealand	Tata Group	7700
Oil & Gas Assets (Campos Basin)	Brazil	Oil & Natural Gas Corp	1670
Omnimex de Colombia	Colombia	Oil & Natural Gas Corp: China Group	850
Oil & Gas Assets (Brazil)	Brazil	ONGC Videsh	820
Greater Nile Petroleum (25%)	Sudan	Oil & Natural Gas Corp	783
Glaxo (30%)	United States	Tata tea	677
Shell Development Angola	Angola	Oil & Natural Gas Corp	600
Oil & Gas Assets (Syria)	Syria	Oil & Natural Gas Corp: China Group	581
Betapharm Arzneimittel	Germany	Dr Reddy's Lab	572
Hansen Transmissions	Belgium	Suzlon Energy	562
Eve Holding	Belgium	Suzlon Energy	548
Terapia	Rumania	Ranbaxy	324
Total			15 687

Source: estimates prepared by the author on the basis of the websites of Dealogic and *Financial Times* (several issues, 2006).

FIGURE 3

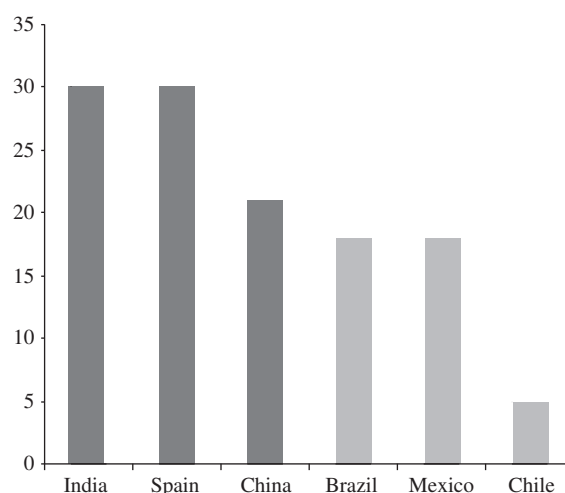
India: recent investments abroad (excluding Corus-Tata deal), 2006
(Percentages)



Source: estimates prepared by the author on the basis of the websites of Dealogic and *Financial Times* (several issues, 2006).

FIGURE 4

Selected countries: number of firms included in Forbes 2000



Source: *Forbes*, list of the 2,000 largest firms, 2006.

have grown outdated, however, as more recent studies have shown (Goldstein, 2007); others, however, remain valid, notably the insistence on technology as a major driver of international expansion towards countries with a lower level of development (Tolentino, 1993; Oman, 1986).

Since then, the so-called “eclectic paradigm” has emerged as the most influential theory regarding the internationalization of emerging multinationals (Cuervo-Cazurra and Genc, 2008; Lasonde, 2007; Jones, 2005). This approach, which builds on work developed by Dunning (Dunning, 1995, 1980, and

1979) and is based on transaction-cost economics derived from the seminal works of Ronald Coase, conceptualizes the decision to invest abroad in terms of market, product and industry factors. Firms begin by exporting to a country and then set up local production facilities or expand through an acquisition; direct investment is subsequent to an initial “mercantilist” export phase. Technological differentiation, lower production costs, managerial skills and innovative products or processes drive internationalization alongside competitive pressures in home markets and other related push factors.

Over recent years, however, the focus has largely been on the Russian Federation and, above all, on emerging Asian multinationals.⁶ Latin America and Latin multinationals have received much less attention, although there are some exceptions, such as Goldstein's study (2008) on Embraer, the Brazilian aeronautics

firm; Cuervo-Cazurra (2008), who undertakes a more general review; Santiso (2006a); Alfaro and Hammel (2006); Baena (2002) on the case of the Venezuelan oil company PDVSA; Kosacoff, Foreteza and others (2001) on the unique case of Arcor; and Chudnovsky, Kosacoff and López (1999).

III

Factors driving the growth of *multilatinas*

This article focuses on the emerging multinationals from three Latin countries whose internationalization has been driven by different factors in each case: Spain, Brazil and Mexico. Spain is an instructive case, and serves as a precedent. For Brazil's leading multinationals (Vale, Petrobras), commodity endowments have been a critical driver, whereas Mexico's advantage lies in its proximity to the huge domestic market of the United States.

Nevertheless, it would be a simplification to reduce the *multilatinas*' success to natural resource abundance and cheap labour. Van Agtmael (2007) recently exploded this myth by underlining the high degree of innovation characteristic of the vast majority of the top emerging-market multinationals, including those of Latin America. Only a handful of the top 25 emerging-world companies which he identifies rely on natural resources or cheap labour for their competitive edge. Cases in point, which support Van Agtmael's argument, are the cutting-edge jet technology used by Embraer in Brazil, and the pioneering logistics system of Cemex, which has allowed it to establish a dominant position in the global cement industry through its GPS-based service that dispatches mixing trucks to construction sites to fill orders quickly, much like taxicabs answering a call. In this sense, many emerging-country multinationals, be they from the Russian Federation, Asia, India or Latin America, have effectively leapfrogged their Western counterparts thanks to innovative technology and business models.

A final, and decisive, driving force behind the internationalization of these companies has been the financial dynamics of the past decade. Between 1980

and 2005, Latin American access to international capital markets improved considerably (Fostel and Kaminsky, 2007). Ten years ago, the factors behind the internationalization of Latin multinationals were already in place: the major development since then has been improved access to local and international capital markets. In a global financial system awash with liquidity, thanks to low interest rates in OECD countries and a worldwide hunt for yield, the cost of capital plummeted for many emerging countries (for the trend in Latin America, see figure 5), thereby giving firms from these countries, for the first time, access to affordable debt on terms relatively comparable to those of their OECD counterparts. This contributed enormously to a levelling of the playing field which afforded emerging companies an opportunity to prove their worth.

Latin American firms have thus been able to tap local and international financial markets, a key factor in their internationalization (Claessens and Schmukler, 2007). The increase in FDI flows from emerging countries is also consistent with previous research: Levy-Yeyati, Panizza and Stein, for example, have underlined how business and interest-rate cycles in developed countries influence FDI flows to developing countries. Aggregating FDI flows into three main source areas (the United States, Europe and Japan), they found them to be countercyclical with respect to both output and interest-rate cycles in the first two, but determined that they were acyclical or mildly procyclical in the third (Levy-Yeyati, Panizza and Stein, 2007).

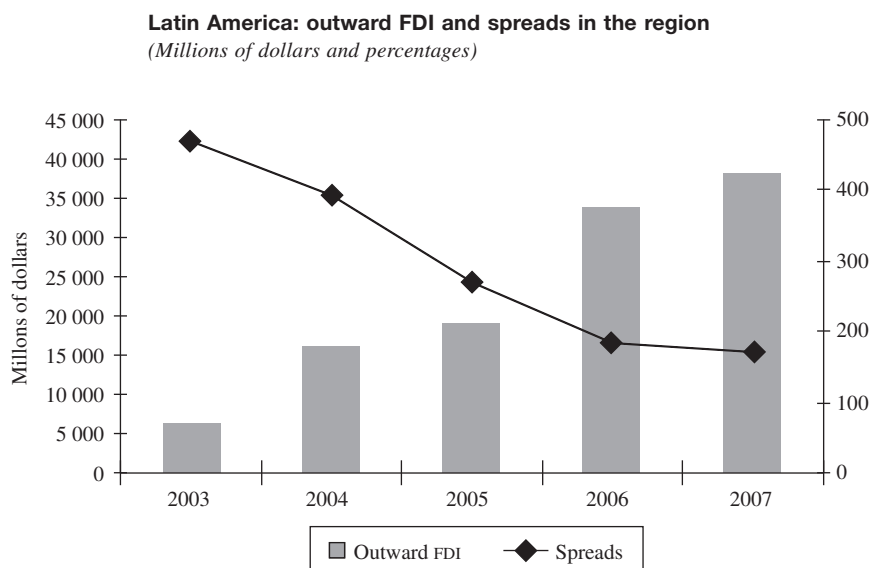
As spreads and risk premiums fell, thereby facilitating access to international financial markets at a lower cost, the market capitalization of emerging multinationals shot up, mirroring the stellar rise of emerging stock markets in general. In 1981, the total value of all stocks in emerging markets was US\$ 80 billion—less than the market value of Samsung stock alone in 2005. In the past 25 years,

⁶ Relevant studies include those of Khanna, 2008; Sauvart, 2008; Rugman and Jing, 2008; Deutsche Bank Research, 2006 and 2008; Khanna and Yafeh, 2007; Goldstein, 2007; Boston Consulting Group, 2006a, 2006b and 2007; and Beausang, 2003.

the total value has risen to over US\$ 5 trillion. In 1988, there were just 20 companies in emerging markets with sales of over US\$ 1 billion. By 2005, there were 270 with US\$ 1 billion in sales, and 38 had sales of over US\$ 10 billion. In 2008, *multilatinas* such as Vale from Brazil have reached a market capitalization of over US\$ 100 billion.

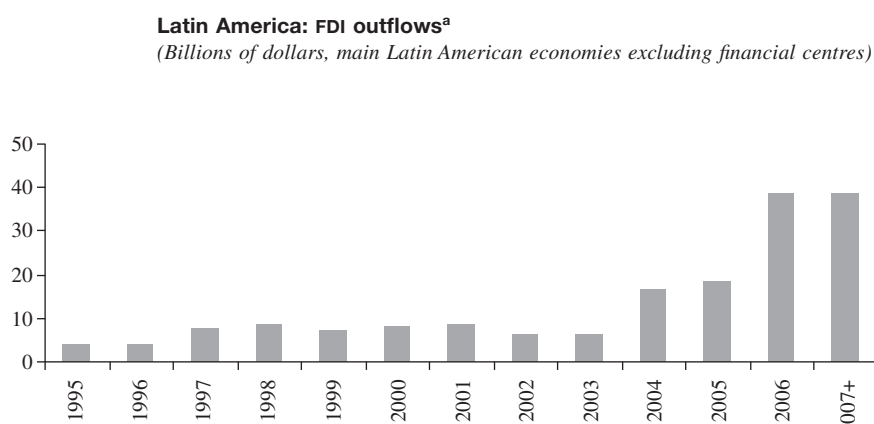
This financial dimension also drives what might be termed the second phase of emerging (including Latin American) multinationals' internationalization process: the transition from overseas sales to overseas acquisitions (see figure 6). Unlike what happened in the past, when acquisition targets were other local or emerging-market players (Rugman, 2007 and 2005),

FIGURE 5



Source: OECD (2007), on the basis of Economist Intelligence Unit, emerging markets bond index (EMBI), JP Morgan.

FIGURE 6



Source: OECD (2007), on the basis of Economist Intelligence Unit and Thomson Datastream.

^a 2007+ refers to January to June, including recent deals. The Cemex takeover of Rinker (valued at \$ 14.6 billion) was partially subsidized through subsidiaries and not therefore counted in official Mexican FDI figures for 2007. Since our discussion addresses the global impact of *multilatinas*, however, the total figure has been counted here.

these firms have been cherry-picking from major OECD markets. This new phase in their internationalization is bringing about sweeping changes in these firms in terms of scale, geographic exposure and corporate governance. Not only are they more internationalized in terms of industrial locations, but they also have a larger foreign investor base. The rapid development of global and Latin American financial markets has helped transform these firms into world-class players.⁷ This echoes the internationalization of Spanish firms

and, although the processes associated with Spanish and Latin American firms have often diverged, the two groups of companies have converged in the financial dimension. Spanish firms, thanks to the anchoring process taking place in Europe, saw their cost of capital move steadily lower through the 1990s.⁸ In the 2000s this story was repeated in Latin America, thanks not to the European process but to a much more global downward trend that pushed spreads and risk premiums to historical lows in all emerging markets.

IV

Spain: a former emerging country

In 2005, two banks, Banco Santander and Banco Bilbao Vizcaya Argentaria (BBVA), played a leading role in the integration of European banking. The initiatives stemmed not from German or French banks, nor from Swiss or British ones, but from the acquisition of the Abbey National Bank of the United Kingdom by Spain's Santander Central Hispano for 1.5 billion euros (€) and from the attempt by BBVA to buy BNL of Italy. All this was in addition to acquisition initiatives by ABN Amro and Unicredito in Italy and Germany, respectively. Spanish banks thus spearheaded the concentration process in the European banking sector. In less than 10 years, both banks became top players in their sector with market capitalizations surpassing those of Deutsche Bank or Société Générale. In parallel, Telefónica was moving to the forefront of its sector, consolidating its international position with its takeover of the United Kingdom mobile phone group O2 for a record € 26 billion. In 2008, Telefónica has become one of the world's largest companies in its sector, competing with Verizon and Vodafone and achieving a higher market capitalization than its German counterpart, Deutsche Telekom.

All these acquisitions and buy-out attempts stem from the boom in the Spanish economy and the globalization of its enterprises. In less than two decades, Spain has become a beacon of vibrant economic development: 20 years after becoming a member country of the European Union, it has transformed

itself into the eighth-ranking global economic power in terms of GDP. Today, its major cities are among the most attractive locations for the headquarters of European multinationals. Equally surprising are the

champions are listed in all the global classifications: the investment fund *Fidelity International*, one of the largest in the financial community, placed two Spanish enterprises (Telefónica and Santander) in its 2005 ranking of the top 10 major European multinationals. Spain was thus on a par with France and outshone Germany (since German firms slipped off the roster). Twenty-five years earlier, in 1985, not a single Spanish enterprise figured in this classification (which featured seven German firms at the time). In just 10 years, Spain's corporate rise has been meteoric.

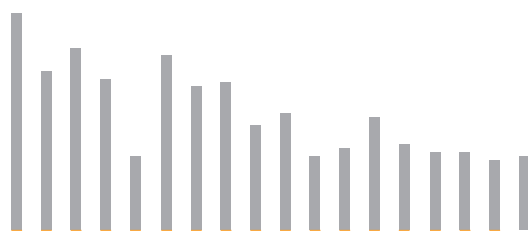
Interestingly, emerging markets, particularly in Latin America, have played a pivotal role in this development. Indeed, the big Spanish enterprises placed massive early bets in the region: in 1999, at the crest of the wave of investments in Latin America, the region accounted for 65% of the total overseas investment effort of Spanish enterprises. Spain is now the leading direct foreign investor in Latin America, ahead of the United States. Today, the seven most important IBEX 35 multinationals, which totalled over 60% of total Spanish capitalization in mid-2006, generate nearly 30% of their income in Latin America. In 2004, they

secured revenue of more than US\$ 41 billion, or the equivalent of 5.6% of Spain's GDP, in the region. In 2005 and 2006, the two leading Spanish banks accrued comparable profits in Latin America and in Spain. Spanish multinationals thus became, perhaps surprisingly, the first *multilatinas*.

The authors conducted a systematic survey of the Latin American exposures of major European-based listed companies. Not surprisingly, Spanish firms have the largest exposures in terms of sales. Some, like BBVA or Telefónica Móviles, obtained nearly half of their revenue from the Americas in 2005. In total, eight of the 28 European firms with the highest sales figures in Latin America are based in Spain (only two German companies figure in that ranking). As shown in figure 7, all the Spanish firms increased their Latin American presence between 2004 and 2006. Conversely, in the group of European OECD companies with Latin American sales in excess of 10% of total sales, some companies, such as Suez (France), BG Group (United Kingdom) or Holcim and Syngenta (both from Switzerland), reduced their relative Latin American exposures (see figures 8 and 9).

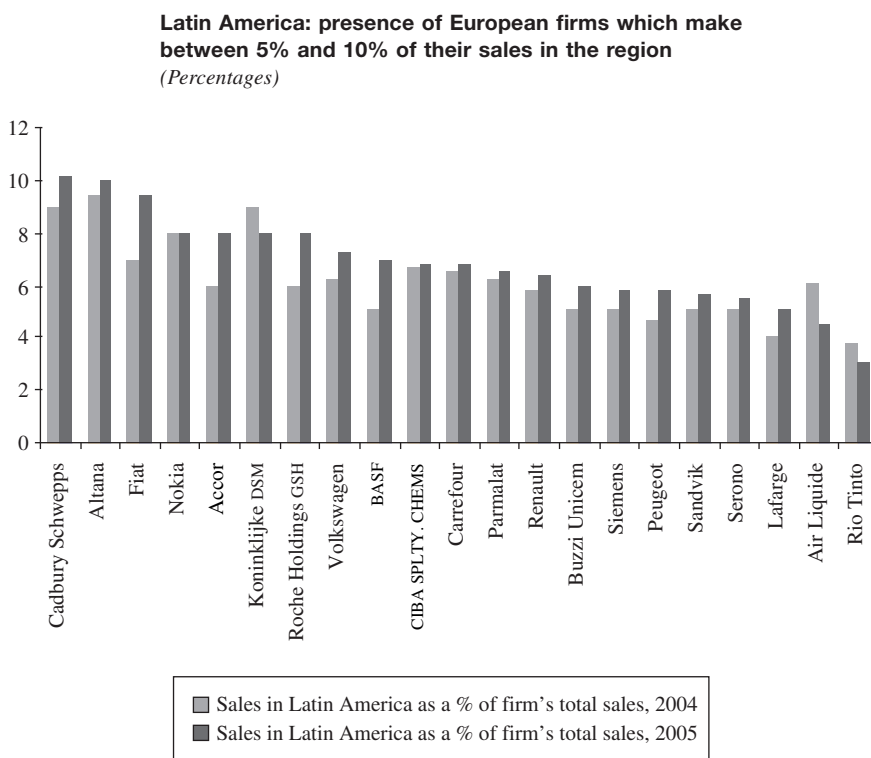
FIGURE 7

Latin America: presence of European firms which make at least 10% of their sales in the region
(Percentages)



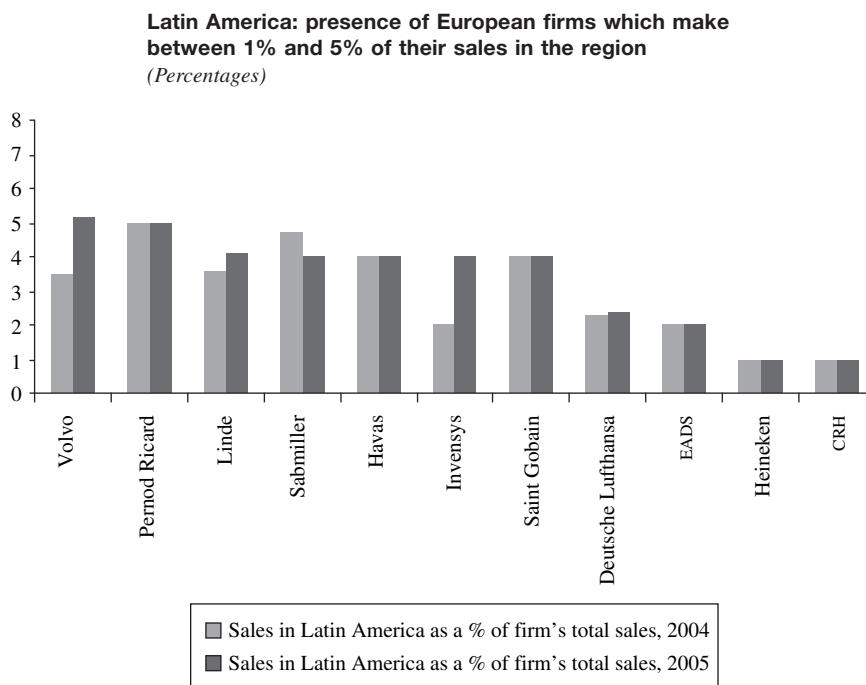
Source: prepared by the author on the basis of annual reports, 2006.

FIGURE 8



Source: prepared by the author on the basis of annual reports, 2006.

FIGURE 9



Source: prepared by the author on the basis of annual reports, 2006.

These stakes represented a bold vote of confidence for Latin America and an unprecedented move from within Europe. Telefónica, for example (with the fifth-largest market capitalization in its sector in late 2005, ahead of France Telecom and Deutsche Telecom), invested a record € 75 billion in Latin America between 1990 and 2006, with initial acquisitions of € 41 billion and later investments in technological infrastructure totalling € 34 billion. All in all, these sums represented nearly 45% of Spain's total net FDI in Latin America.

The Spanish companies' long-term commitment became clear soon after the Argentine crisis in 2001 when, as large numbers of American and European enterprises pulled out, Spanish multinationals weathered the storm and looked to the north of the American continent for new investment opportunities, such as the operations set up by BBVA in the United States, Mexico and Colombia.

The keys to the success of this Latin globalization were diverse, but the adaptive capacity of firms' technological platforms, their business-development processes and their risk systems played a critical role. Also highly valuable were their human resources, the know-how built up in average-income market environments (for somewhat over a quarter of a century, in the case in Spain) and the capacity to transfer and adapt this know-how to a Latin American context.

From 2005 on, Spanish multinationals began to turn their attention back towards developed countries, with the bulk of FDI now going to OECD economies: in 2005, just 15% of Spanish FDI went to the Americas. Most Spanish multinationals have completed their Latin American expansion. With few gaps left to fill in the Americas, Spanish companies have sought to diversify into other regions. Telefónica looked back to Europe—including Eastern Europe—and to Morocco and China. Banks have also refocused on Europe, Asia and possible synergies between the United States and Latin America. Enterprises in the electricity, oil and infrastructure sectors have sought to consolidate their presence beyond the Americas: Ferrovial and Abertis (infrastructure) took over British Aviation and Materials group (BBA) and the Italian Autostrade, respectively.

The swift transformation of the Spanish economy and its enterprises testifies to a high capacity for boldness and innovation and an enthusiasm for running operations in distant markets. An entire corporate generation threw itself into this adventure and was able to turn its enterprises into global leaders. The giant Inditex is today one of the most powerful multinational

corporations in the textile sector, alongside Gap (United States), Hennes & Mauritz (H&M, Sweden) and Benetton (Italy). It is present in more than 55 countries, making 55% of its total sales abroad. Its business model has become a corporate landmark in top business schools such as Harvard.

Telefónica has become a multinational corporation with operations in 17 countries and a presence in more than 40. It remains the largest investor in Latin America, ploughing nearly € 100 billion into international acquisitions and infrastructure investments between 1990 and 2006. By mid-2005, Telefónica had 56% of its clients outside Spain, bringing in 33% of the group's income, and was the leading enterprise in the Latin American region with a 25% market share in the total fixed- and mobile-telephony sector, and with 58% of the group's total staff in this geographical area. At this time (before the O2 deal), with 145 million customers, Telefónica was already the world's fourth-largest operator in its sector in terms of managed customers and global capitalization, just behind Vodafone, Verizon and China Mobile and ahead of Deutsche Telekom and France Telecom (in 1999 it was barely in the top 20). In terms of market capitalization, Telefónica is almost three times more powerful than Danone and 2.5 times the size of enterprises like Philips or Sony. Its contribution to the economic development of the countries in which it has invested is also well worth noting: Telefónica's local income amounts to an average of 1.8% of the GDP of the main countries in which it operates (2.3% of GDP in Spain and Peru and 1.8% of GDP in Chile), and it employs a staff of 110,000 in Latin America (out of a world total of 190,000 in mid-2005). In 2005, Telefónica was the second-largest taxpayer in Brazil (paying US\$ 2.83 billion) behind Petrobrás, and the country's fourth-largest employer (with 44,000 employees), after the postal service and the retailers Pan de Azúcar and Carrefour.

In the energy sector, enterprises such as Endesa, Unión Fenosa, Iberdrola, Gas Natural and Repsol YPF have been steadily expanding their international operations. Endesa, the country's leading electricity utility, has developed a substantial international presence, mainly in Latin America but also in Europe (Italy, France and Portugal). As for Unión Fenosa, its international income amounts to one third of its total income, and the enterprise is present through its subsidiary Soluziona in nearly 30 countries (half of them in Latin America). Unión Fenosa Internacional operates in 10 countries and on four continents. Iberdrola, the leading Spanish enterprise in terms of installed capacity

and a world leader in wind energy, has also developed a significant global presence, with energy and engineering activities in 35 countries today. In December 2005, the enterprise continued expanding its global reach with the signature of an important international agreement with the Algerian enterprise Sonatrach to develop joint ventures for the sum of € 10 billion over 20 years. Repsol YPF is now present in 30 countries, having invested more than € 30 billion (amounting to 65% of its total investments) between 1995 and 2005, and has become one of the biggest foreign investors in the region in the last decade. Lastly, Gas Natural, another major firm in the energy sector, has also engaged in intensive international activity in recent years. With half of its employees located abroad, the group is present in Latin America (Argentina, Brazil, Colombia, Mexico and Puerto Rico), Italy and Morocco.

In the banking sector, both Santander and BBVA are emblematic of this successful strategy of globalization through the Americas. BBVA, for instance, was little more than a domestic retail bank in 1995, with scarcely any presence abroad. In just 10 years, it has become a universal, international bank, present on three continents and in all the wholesale- and retail-banking business areas including asset management, pensions and insurance. During this period, it invested

more than € 13.5 billion in Latin America. In 2006, the bank was present in 35 countries (14 in Latin America) and could count 50 different nationalities among its 100,000 employees throughout the world. It is also completing its Asian franchise in order to position itself in the investment and trade boom between Asia and Latin America, boosted by the emergence of China and India.⁹ In November 2006, BBVA paid € 1 billion for stakes in Chinese banks controlled by the Beijing-backed Citic conglomerate, in order to break into China's fast-growing financial sector and boost its position as a leading intermediary between China and Latin America. The investment was the largest ever made by a Spanish operator in China, following Telefónica's investment. All in all, this operation by BBVA was one of the largest banking capitalizations in Europe, ahead of Deutsche Bank or Société Générale, while its rival, Santander, achieved the highest European continental banking capitalization in 2006 when it took control of Abbey National. These two banks —BBVA and Santander— became the most profitable and efficient of the Eurozone and their presence in emerging markets helped to boost their revenues and market capitalizations. In contrast, Commerzbank's reliance on an almost solely European home market has led to dramatic underperformance.

V

Brazil and Mexico: a new generation of Latin multinationals

Turning to another continent and other Latin countries, the story of globalization is also being written in Latin America. A number of corporations from Latin American countries offer notable examples: in Argentina, for instance, Arcor is now a leading global manufacturer of confectionery and the largest exporter of those goods in Argentina, Brazil and Chile, with a presence in 117 countries on all five continents; the pipe manufacturing company Tenaris is present in Argentina, Brazil, Mexico and the Bolivarian Republic of Venezuela, as well as in Canada, Italy and Japan (in 2005, more than 85% of the firm's sales took place outside Latin America).

The largest emerging *multilatinas*, however, are of Mexican and Brazilian origin: 85 of Latin America's

100 leading enterprises and 35 of the 50 most profitable are from one of these two countries (see table 2). Mergers and acquisitions by Mexican corporations have multiplied in fewer than 10 years and their investments outside Mexico now amount to more than US\$ 25 billion, ahead of the US\$ 20 billion invested by their Brazilian peers (see figure 10). Mexico and Brazil are spearheading the process of outward FDI: in 2004, Latin American enterprises together invested US\$ 22 billion outside their respective borders, which

⁹ For more details on the impact of China on Latin America, see the OECD Development Centre working paper (Blázquez, Rodríguez and Santiso, 2006).

TABLE 2

Latin America: ten largest non-financial multinationals

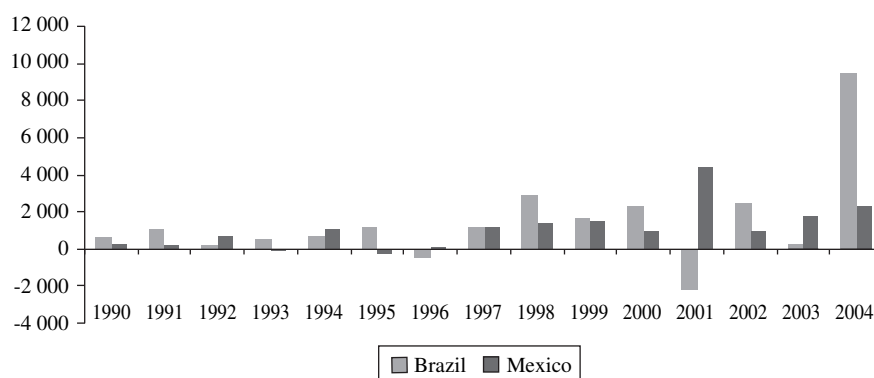
Corporation	Home economy	Sector	Assets, end 2006 (Millions of dollars)		Sales, end 2006 (Millions of dollars)	
			Foreign	Total	Foreign	Total
CEMEX S.A.	Mexico	Construction	24 908	29 972	14 551	18 249
Vale do Rio Doce	Brazil	Mining	24 382	60 954	16 145	20 363
América Móvil	Mexico	Telecommunications	10 662	29 473	9 618	21 526
Telmex	Mexico	Telecommunications	10 625	44 532	4 362	16 115
Petrobras	Brazil	Petroleum expl./ref./distr.	9 953	98 680	23 160	93 893
Petróleos de Venezuela ^a	Venezuela, B.R.	Petroleum expl./ref./distr.	8 868	55 355	25 551	46 589
Gerdau	Brazil	Metal and metal Products	4 926	12 595	6 474	10 940
FEMSA - Fomento Economico Mexicano	Mexico	Food and beverages	3 455	13 463	2 854	11 707
Gruma	Mexico	Food and beverages	1 486	2 784	1 937	2 823
Grupo Bimbo	Mexico	Food and beverages	1 386	3 851	1 892	5 859

Source: OECD (2007), corporate annual reports and UNCTAD (2006).

^a Data for PDVSA (Petróleos de Venezuela) are from 2004.

FIGURE 10

Brazil and Mexico: outward foreign direct investment
(Millions of dollars)



Source: prepared by the author on the basis of UNCTAD (2006).

represented a 500% jump over the previous year. The most spectacular rise was recorded in Brazil. According to UNCTAD data, Brazilian firms invested nearly US\$ 10 billion outside Brazil in 2004, compared to barely US\$ 250 million the previous year. In 2005, total Brazilian FDI stock abroad stood at over US\$ 71 billion, far surpassing Mexico's US\$ 28 billion and Argentina's US\$ 22 billion (and Chile's FDI stock, which was similar to Argentina's). Brazil has thus forged the strongest outward FDI position in Latin America: it accounts for 40% of the region's entire overseas FDI

stock. In 2006, according to ECLAC data, outward FDI reached a new high of US\$ 42 billion, which was double the amount invested abroad in both 2005 and 2007 (ECLAC, 2008).

As occurred in previous decades, competitive pressures in home markets, combined with pull factors related to the expansion and diversification of sales, markets and production bases, were a major engine of this new wave of internationalization. The financial dimension has also been a key factor: all these companies have seen their market capitalization grow

and have the ability to tap local and international capital markets at low cost. Companies like Cemex and Vale are now able to access financial markets on the same terms and conditions as their OECD-based competitors.

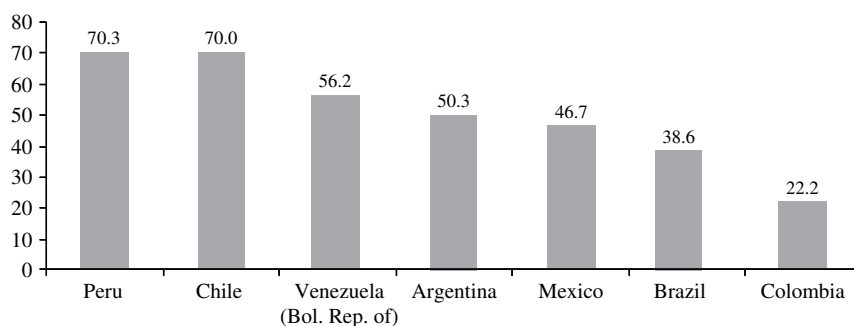
The new wave of internationalization has also brought huge increases in overseas sales. Using *América Economía* rankings of the top 100 Latin American companies, the authors calculated ratios of sales abroad to total sales. For Peruvian and Chilean companies on the list, overseas sales represented no less than 70% of total sales in 2005 (see figure 11). But

even for Brazil and Mexico, which have many more companies on the list, the averages are impressive: Mexican firms make 47% of their total sales abroad (mostly to the United States market) and Brazilian firms 39%. The bulk of all exports (75%) is associated with oil, gas and minerals (see figure 12) —unsurprising in a continent where over one third of all exports are commodity-related.

Key to understanding this process is the fact that Mexican and Brazilian firms evolved in an environment that was transformed by the massive entrance of

FIGURE 11

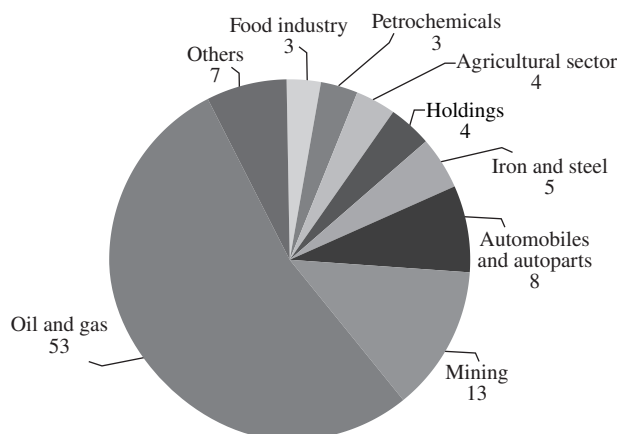
Latin America: exports as a proportion of local sales of the 100 largest Latin American firms
(Percentages)



Source: data from *América Economía*, several issues, 2006.

FIGURE 12

Latin America: exports by 100 largest firms, by sector, 2005
(Percentages)



Source: data from *América Economía*, several issues, 2006.

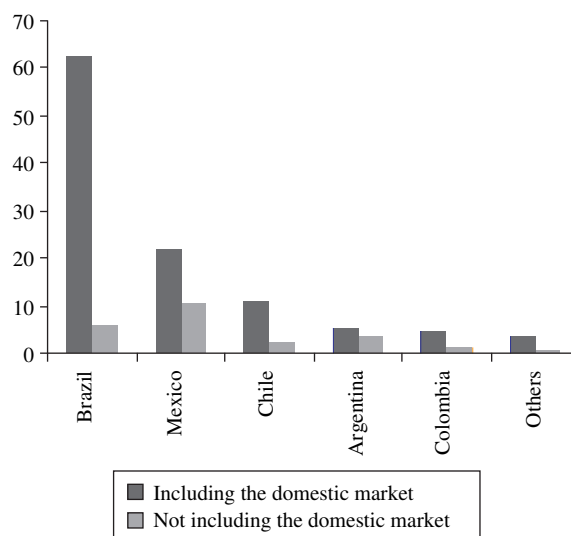
strong foreign competitors in the 1990s (some of them Spanish, as noted earlier). Consequently, between 1991 and 2001 the profile of the 500 largest enterprises established in Latin America changed drastically. The number of enterprises under State control decreased sharply, from 20% in 1991 to less than 9% 10 years later. During the same period, foreign transnationals staked out broad territories in the region: from 27% of the continent's 500 largest enterprises in 1991, they came to represent 39% by 2001. This growing competition put pressure on local companies, which had traditionally provided products and services for their home markets. The most dynamic firms turned to external markets and evolved into Latin transnationals. Some of them sought to expand into particular parts of the continent, concentrating on MERCOSUR or the Andean area. Some developed a region-wide strategy and others even sought emerging markets in other continents, such as Africa and Asia, or turned to OECD countries, especially the United States.

As mentioned earlier, this process was facilitated by propitious international financial conditions, which lowered the cost of capital throughout the emerging world and in Latin America in particular. This, in turn, facilitated access to international financial markets while local markets and capitalizations developed rapidly. Thanks to this sudden access to capital, Latin American companies increased their acquisitions in home markets and, especially, abroad, both in Latin America and other emerging or OECD markets. This included domestic market operations: in the early 2000s, acquisitions in the region by Latin American firms reached nearly US\$ 110 billion (see figure 13). Of this amount, more than US\$ 23 billion ended up in countries of the region other than the respective firms' home markets. As the figure shows, Brazilian and Mexican firms have been the most active in this process.

Mexico was the undisputed leader of this drive, with pioneering firms such as Cemex, whose global expansion is doubtless one of the region's most outstanding success stories. Between 1990 and 2006, Cemex became a world leader among emerging multinationals in terms of overseas acquisitions, with no less than 40 operations completed during the period. In 2006, just 10 years after its international debut, Cemex had established a presence on four continents, with over US\$ 15 billion invested abroad and subsidiaries not only in Latin America but also in the United States, the United Kingdom, Spain, Egypt, Indonesia and the Philippines. In 2005, it performed one of the largest transactions ever carried out by a Latin American firm

FIGURE 13

Latin America: acquisitions in the region by Latin American firms, 2000-2006
(Millions of dollars)



Source: corporate finance data from BBVA, 2006

with the acquisition of RMC of the United Kingdom for close to US\$ 6 billion. After this acquisition, sales in Mexico dropped to only 21% of the firm's total sales, behind sales in the United States (27%) and those in Europe, which in 2005 was Cemex's largest market, representing nearly 40% of total sales (with Spain and the United Kingdom accounting for 10% apiece). The year after the RMC acquisition, Cemex continued its international expansion by offering US\$ 14 billion for Rinker, the Australian building materials group, thus becoming the global leader in its sector. This was also the largest acquisition ever in the building materials industry, surpassing Lafarge's acquisition of Blue Circle for US\$ 9.5 billion in 2001.

These investments abroad brought to light another aspect of the globalization of the Mexican economy. Not only does Mexico have one of the highest rates of trade openness among the emerging countries (with international sales in the United States in particular), but many Mexican firms have opted for a more direct presence in other markets, with large set-ups or acquisitions. The Alfa conglomerate, based in Monterrey, has formed partnerships and strategic alliances with more than 20 firms in the United States, Japan, Europe, South America and Mexico, all of them leaders in their respective fields.

The telecommunications giant Telmex has become one of the largest telephony competitors

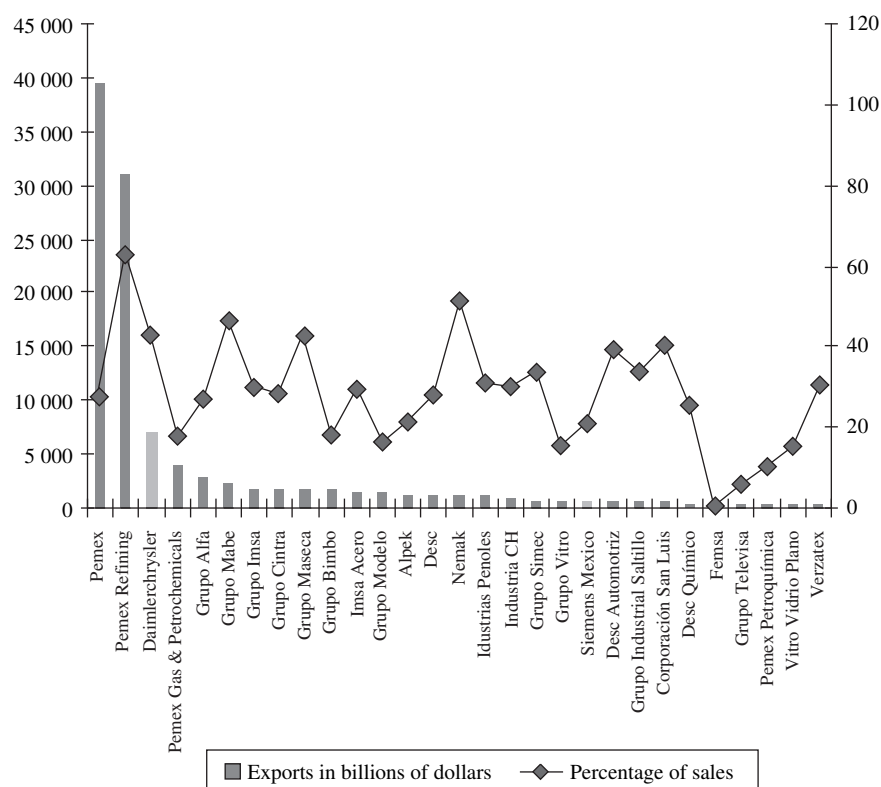
in Latin America. Along with its spin-off, América Móvil, it made multiple acquisitions in the region, completing its expansion plan in just a couple of years. In 2005, América Móvil was still franchising in the region. In partnership with Bell Canada Inc. and SBC International, it set up Telecom Americas as the main vehicle for expansion in Latin America. América Móvil today has subsidiaries and joint investments in the telecommunications sectors of Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia, Ecuador, Guatemala, Mexico, Puerto Rico, Spain and the United States. A number of firms are prominent for their international activities in other sectors too, such as the Modelo brewing group, which is active in more than 150 countries. The Bimbo group, which was founded in 1945 as an agribusiness and now employs over 80,000 people, is another outstanding example. Recently, Bimbo has made a large number of major acquisitions in the United States, which absorbed nearly 30% of its net sales in 2005.

Mexican companies have thus entered a new phase of expansion, seeking to establish a direct presence overseas, rounding off the first stage of internationalization in consonance with their increasing sales abroad. The *América Economía* databases and rankings show that some of the major Mexican exporters are achieving significant levels of international sales (see figures 14 and 15). For example, international sales represented 82% and 69% of the total 2005 sales, respectively, of the Nemak and Mabe groups. Interestingly, a number of German firms are among the leading Mexican exporters: DaimlerChrysler and Siemens export 69% and 35% of their total Mexican production, respectively.

In Brazil, too, major companies are moving into a second phase of the internationalization process, with a significant increase in sales volume outside the country in the past few years. Like in Mexico, some of the major exporters in Brazil are foreign firms, such as Volvo of Sweden, which sells nearly 50% of

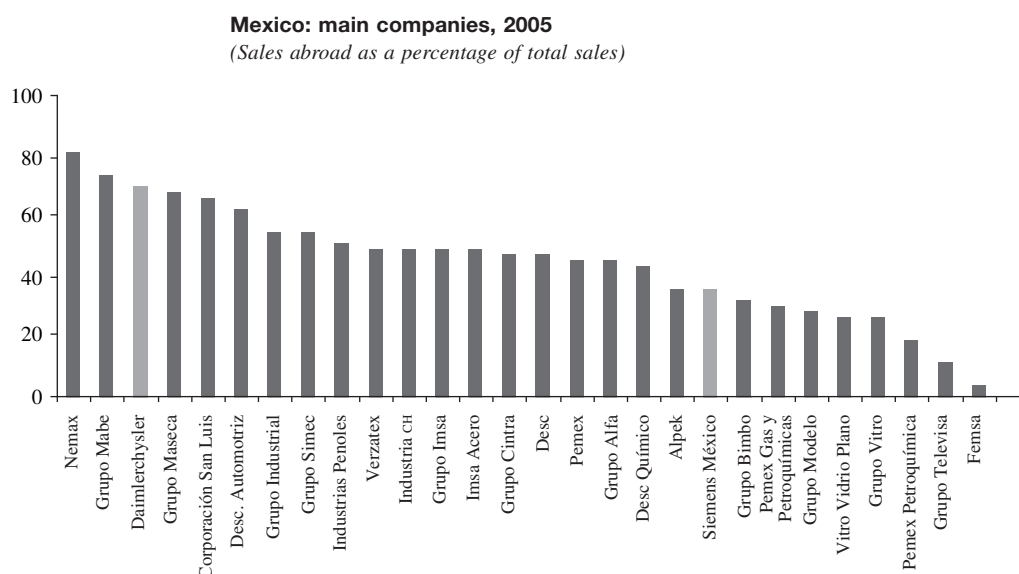
FIGURE 14

Mexico: major exporters, 2005



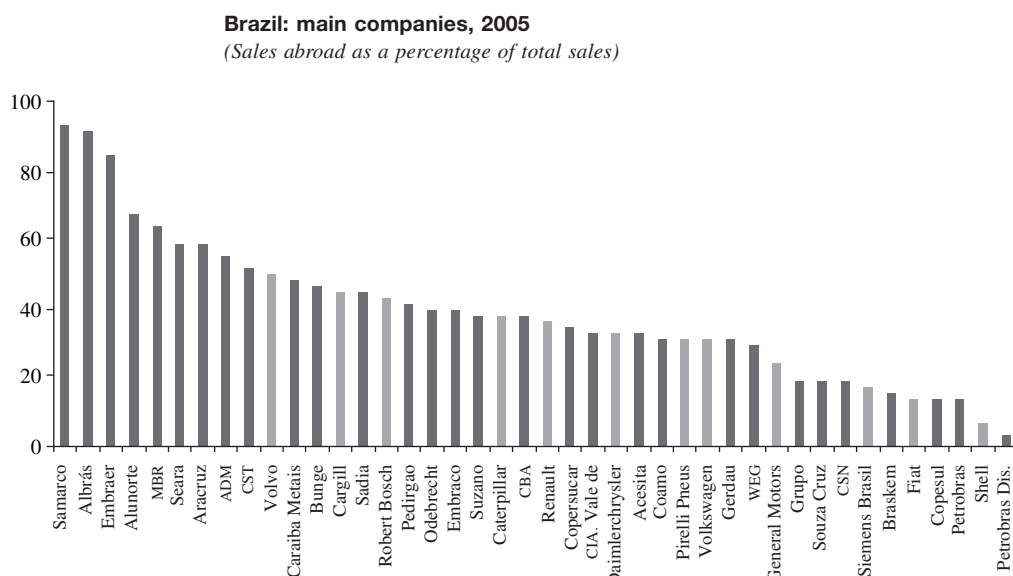
Source: prepared by the author on the basis of *América Economía*, several issues, 2006.

FIGURE 15



Source: prepared by the author on the basis of *América Economía*, several issues, 2006.

FIGURE 16



Source: prepared by the author on the basis of *América Economía*, several issues, 2006.

its Brazilian-based production abroad; General Motors, Cargill and Caterpillar of the United States; Fiat and Pirelli of Italy; Renault of France; and Bosch and Volkswagen of Germany (see figure 16).

In 2005, the aeronautical group Embraer made 84% of its sales abroad and Aracruz Cellulose, another of Brazil's export champions, which exports over 60%

of its production outside Latin America, sold essentially in Europe, North America and Asia. In the steel sector, 31% of Gerdau's total sales were made outside Brazil and the leading enterprise in the mining sector, Vale, made 33% of total sales outside the country. Even the oil company Petrobras has become a major exporter, with 11% of its total sales abroad after starting up

exploration and production operations in the United States, Mexico, the Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru, Bolivia, Nigeria and Angola. The agro-industrial sector, one of the fastest-growing in Brazil, features a number of dynamic groups such as Sadia, which exports to more than 65 countries, including the Russian Federation, Japan and countries in the Middle East, invoicing nearly half of its sales abroad (44%). Like Sadia, other groups are successfully increasing and diversifying their exports, including the petrochemical firm Braskem, which ships 20% apiece of its total exports to Europe and Latin America and 50% to North America (see figure 17).

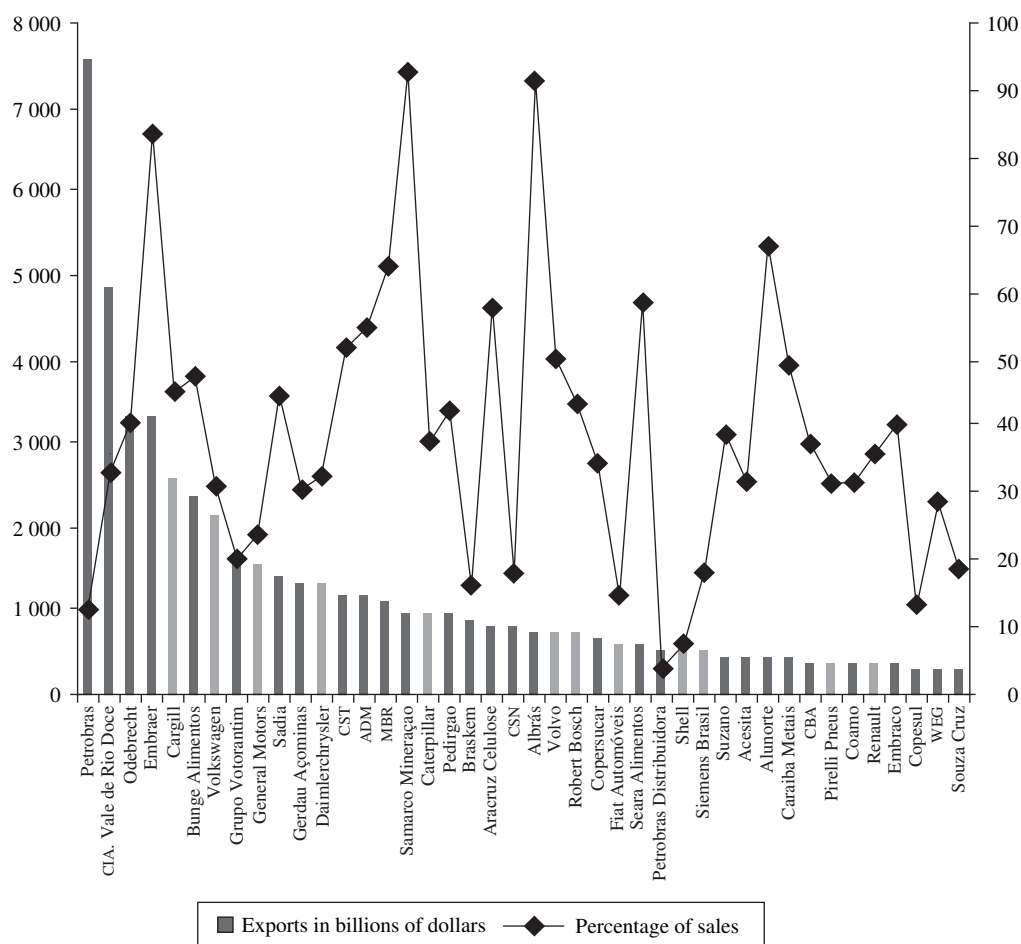
Nonetheless, all of these groups—moving beyond the “mercantilist” phase—are also aiming to form

significant investment operations abroad. The strategy reflects two broad purposes. Like the pioneering Cemex, these groups are seeking, on the one hand, to expand their markets by staking out positions in other emerging, mainly Latin American, countries. On the other hand, from a more strategic point of view, they are also aiming to become established in OECD countries or to up their investments in order to improve their financial (as well as their industrial) profile, and thus further reduce their capital costs.

In 2005, the steel producer Gerdau proceeded down this path, building up acquisitions and purchasing 40% of Spain's Sidenor at the end of the year. A century-old enterprise, Gerdau has established important positions not only in Latin America (Argentina, Brazil, Chile,

FIGURE 17

Brazil: main exporters, 2005
(Sales abroad as a percentage of total sales)



Source: prepared by the author on the basis of *América Economía*, several issues, 2006.

Colombia and Uruguay) but also in North America (the United States and Canada), thus improving not only its industrial profile but also its financial one. In the transport and equipment sector, Marco Polo, Brazil's leading bus manufacturer, has also started down the road to becoming a global enterprise. With international income amounting to half of the total, Marco Polo now owns manufacturing units not only in Brazil but also in Argentina, Colombia, Mexico, Portugal and South Africa, and exports to more than 60 countries, including Argentina, France, Germany, the Netherlands, Mexico, Portugal, Spain, Saudi Arabia and the United Kingdom.

Other prominent examples among Brazilian conglomerates are Votorantim and the mining giant Vale. Votorantim, one of the largest companies in Latin America, began investing abroad by diversifying into OECD countries through acquisitions in the United States and Canadian cement sectors. Odebrecht is another large group that has diversified and moved strongly into international activities. With a presence on four continents and diversified sales across 50 countries, the group now receives more than one third of its income from abroad. In 2005, Vale, the world's fourth-largest mining company, issued 90% of its invoices in dollars and 70% of its income came from abroad (30% from Europe and another 30% from Asia, particularly China and Japan). In the past few years, it has made acquisitions and become established in the United States, Canada, France, Bahrain and Norway. It

has also started an ambitious plan to develop a global portfolio of exploration projects on three continents (the first and largest projects are in Peru, Argentina, Gabon, Mozambique and Australia). Asia (China in particular) has become one of the group's main objectives for trade expansion. Its stock structure is also largely international, with 70% of the enterprise's shares owned by non-residents of Brazil. In 2006, Vale undertook a major development with the acquisition of the Canadian-based company Inco, for a record US\$ 17 billion.

Aeronautics is another sector in which a Brazilian firm has an extensive international presence. The *multilatinas* Embraer, as noted earlier, is Brazil's second-largest exporter and has become an emblem of Brazilian enterprise: an international leader, like its Canadian competitor Bombardier, but from an emerging country. Founded in 1969 by the Brazilian government, then seeking international prestige, Embraer was privatized in 1994 (20% of its stock is owned by a conglomerate of European firms led by Dassault Aviation and EADS). Today it employs a workforce of 15,000. In mid-2006, Embraer, now the world's fourth-largest commercial aircraft maker, signed a deal with the Chinese airline HNA Group for 100 jets valued at US\$ 2.7 billion, its biggest order to date in China. At about the same time, Embraer announced its intention to significantly boost its technical support network in the Asia-Pacific region, by creating a parts and components logistics centre and installing a full-flight simulator for its jets starting in the second semester of 2007.

VI

Back to the future

What are the drivers of the *multilatinas*' investment boom, and will it last?

Before addressing these questions it is important to stress that the trend described above is not unique to Latin America. The emergence of multinationals in emerging markets is no longer a novelty. Outward investments and, more generally, South-South flows from emerging markets are on the rise: South-South flows represented over 30% of all FDI flows to developing countries in 2005 (see figures 18 and 19).

FDI from emerging countries is increasing and Latin American multinationals are part of this new dynamic. The trend will continue in the future if the

current conditions and incentives are maintained. As the figures show, the region has been a key recipient of FDI but it is also becoming, increasingly, an overseas investor in its own right. Since 2000, Brazilian companies have been investing an average of over US\$ 3 billion per year, according to Brazilian official statistics on net outward flows. In 2004, partly owing to the merger between Ambev of Brazil and Interbrew of Belgium, these flows reached a record of US\$ 9.5 billion, before reverting the following year to a more typical level of US\$ 2.5 billion. A new record is projected for 2006, however: alone, the takeover of Inco by Vale for a US\$ 19 billion all-cash bid will probably

make total Brazilian overseas FDI for 2006 more than double that of the previous record year. Mexico is following a similar pattern, with the boom in Mexican FDI abroad also very recent. Until 2000 Mexican firms virtually did not invest overseas, but since then FDI abroad has also averaged US\$ 3 billion per year. In 2005 it reached a record of nearly US\$ 6.2 billion,

according to official Mexican figures. In 2006, this amount will be more than doubled solely by Cemex's acquisition of Rinker for US\$ 13 billion.

The sustainability of such trends will depend partly on the persistence of the drivers that are now helping emerging multinationals to expand abroad, including in

rates in OECD countries over the 2000s generated a large excess of liquidity and a keen search for yield, all of which strongly favoured emerging markets by driving down spreads and lowering the cost of capital for emerging-country multinationals. At the same time, local emerging markets deepened and became more sophisticated and new investors entered the assets market by investing in bonds and equities from around the emerging world.

In parallel, multinationals from emerging economies attempted to expand into new markets, both in other emerging countries and in more mature markets. Armed with business models combining low costs, appealing products and services, modern logistical and informatic facilities and knowledge systems, they started to expand overseas. As a result, Cemex and Vale became world leaders in their industries, Embraer bypassed Bombardier as the region's market leader in jets and Embraco became the global leader in compressors. The list will continue to expand unless the international financial and industrial environment changes dramatically.

Some of the drivers of this boom are structural, including the dramatic surge in low-cost

VII

Conclusions

In less than 10 years, the multinational Spanish enterprises examined in this paper have become successful in Latin America and the rest of the world. In Mexico and Brazil, other *multilatinas* have taken up a strategy of globalization that exceeds the limits of commercial exporting. The examples of Cemex and Vale show that boldness and process innovation can forge a path to global leadership. Some of these corporations were also able to take advantage of new emerging markets, such as those of the Hispanic communities in the United States or in sectors such as agro-industry, in which enterprises like Arcor, Sadia and Bimbo are benefiting from the competitive advantages offered by the region.

Beyond these achievements, however, what is really striking is the magnitude of the process in which these firms are involved. In just 10 years, Mexico became a world-leading exporter of manufactured goods. In 2005, Brazil's exports passed the US\$ 100-billion mark. The rationale of entrepreneurs has responded to that of economic policies, not only in Chile but also in Mexico and Brazil.¹⁰ Monetary and fiscal policies have provided moorings for corporate strategies.

The good news from the Americas may be that more good news is on the way. The firms mentioned as examples here remain at the vanguard. Few Latin American corporations have become global leaders in their respective sector as Cemex, Vale and Embraer have done. The global corporate map is being swiftly redrawn, however. Multinational groups are arising in China, India, the Republic of Korea, Turkey and South Africa and, one after the other, staking out important positions not only in domestic but also in foreign markets. Latin America also appears to be holding some excellent cards. In the future, the success of its multinational corporations could rival the recent triumphs of Spanish multinationals and bring more successful *multilatinas* into play.

According to United Nations figures, transnational firms from emerging markets already account for one

fourth of all major multinationals in the world. Most of these firms are still relatively small corporations compared to their peers in OECD countries, and have a limited geographical reach. But the falling cost of capital in recent years and an increasing appetite for overseas expansion is rapidly changing the map. In 2006 emerging multinationals embarked upon major takeover operations in OECD countries for amounts approaching or over US\$ 10 billion: Vale acquired Inco, Cemex made a massive bid for Australian rival Rinker, while Tata Steel bought the British firm Corus, and Mittal acquired the leading European steel company Arcelor. OECD multinationals, clearly, are no longer the sole bidders. In the future, new titans from Brazil and Mexico, and also from India, China, South Africa and the Russian Federation, will take over firms in highly developed countries. This is a new world in which emerging multinationals —thanks to easier access to capital and to their business models and asset structures— are challenging large OECD-based corporations and forcing them to adapt to the new situation.

Another important trend is increasing South-South connection. Chinese companies are investing not only in Asia, but also now in South Africa and other African countries. Latin America is not only on the radar screens of Chinese firms but is also of interest to Indian companies. Beyond the existing relationship between Europe and the United States, the connection between Latin America and Asia might become one of the most promising trends of this century, illustrating a major shift under way in the global economy: what used to be called the Centre (OECD countries) is increasingly less central to global trade and capital flows, while the Periphery (the emerging countries) is increasingly less peripheral. The borderline between poor and rich countries is becoming more complex to define. The so-called OECD countries include some emerging markets like Mexico, the Republic of Korea and Turkey.

Over the next few decades new emerging giants will contribute to shifting these frontiers even further. Part of this story will be written by multinationals from emerging countries and some of these will certainly be *multilatinas*.

¹⁰ See Santiso (2006b) and Feenstra and Hamilton (2006).

(Original: English)

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